

Via Hand Delivery and Email

September 5, 2008

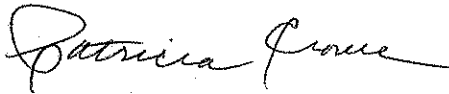
Mary L. Cottrell, Secretary
Department of Public Utilities
1 South Station, 2nd Floor
Boston, MA 02110

**Re: National Grid Reply Comments on Increased Energy Efficiency Spending
D.P.U. 08-8**

Dear Secretary Cottrell:

Enclosed please find the Reply Comments of Massachusetts Electric Company and Nantucket Electric Company each doing business as National Grid. Please contact me if you have any questions.

Very truly yours,



Patricia Crowe

cc: Benjamin Spruill, Hearing Officer
Service List

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

Massachusetts Electric Company and)
Nantucket Electric Company)
d/b/a National Grid)
_____)

D.P.U. 08-8

REPLY COMMENTS OF NATIONAL GRID

I. Introduction

On July 16, 2008, the Department of Energy Resources (“DOER”) filed a request with the Department of Public Utilities (the “Department”) seeking an increase for energy efficiency spending through ratepayer-funded efficiency programs for the upcoming winter. On July 25, 2008, the Department issued a memorandum agreeing with the DOER that there was an urgent need to increase spending for the upcoming winter and required that all energy efficiency program administrators submit proposals to increase spending for residential programs. Subsequently, on July 29, 2008, the Department held a technical conference to discuss issues that program administrators, the Attorney General, and non-utility parties may have in implementing the funding increase. Pursuant to other memos from the Department, proposals for increased spending were to be filed no later than August 15, 2008 with initial comments due August 25, 2008 and reply comments due September 5, 2008.

On August 15, 2008, Massachusetts Electric Company and Nantucket Electric Company, each doing business as National Grid (“National Grid” or the “Company”)

filed a proposal to increase National Grid's energy efficiency budgets by approximately \$4.3 million. The additional funding would support increased efforts in the Residential Conservation Service's Heat Loan Program (an increase of \$1.5 million), the Low Income Single Family – Appliance Management Program (an increase of \$1.0 million), the *EnergyWise* Multifamily Retrofit Program (an increase of \$0.5 million), and the Small Business Services Program (an increase of \$1.0 million). The Company supplemented certain information contained in its 2008 Energy Efficiency Plan filed with the Department on March 26, 2008 to include updated budgets for 2008 reflecting the proposed increases, program cost effectiveness, savings goals, and performance incentives. The Company's Energy Efficiency Plan is pending before the Department.

In these Reply Comments, the Company addresses comments made by the Attorney General of the Commonwealth, Associated Industries of Massachusetts ("AIM"), Environment Northeast ("ENE") and Wal-Mart Stores East, L.P. ("Wal-Mart") on the Company's proposal.

II. Response to Comments on the Company's Proposal

Comments on the Company's proposal include the following: (A) the proposal includes spending beyond residential spending (Attorney General Comments at 5; See also AIM comments at 2-3); (B) the proposal lacks detail on incremental spending by program cost categories, constraints of program expansion, number of customers that will be served, and dollar savings that customers will experience each month (Attorney General Comments at 9; See also ENE Comments at 5); (C) the proposal does not identify the appropriate sources of the increased funding (Attorney General Comments at 13-14; AIM Comments at 2; See also Wal-Mart Comments at 2-4); and (D) the proposal

does not identify the appropriate level of review (Attorney General Comments at 4, 13-14; Wal-Mart Comments at 2-3).

A. Spending Beyond Residential Programs

In addition to increasing spending for residential programs, National Grid also proposed to increase spending on its Small Business Services Program. The Company included this non-residential program because small business customers, like residential customers, are significantly impacted by high energy costs. Small business customers do not typically have internal staff with the ability and knowledge to address energy efficiency opportunities on their own, demand for services provided by this program is high, and this program is highly cost effective having a benefit-cost ratio of 3.90, as indicated in Appendix A page 1 of the Company's August 15 filing. The DOER in its comments noted that while the initial focus for increasing spending is to increase assistance to residential customers, the Department could consider proposals to address large unmet demand for cost-effective commercial and industrial ("C&I") programs (DOER Comments at 3). In addition, the recently enacted Green Communities Act requires investments in all cost-effective energy efficiency opportunities. Expanding the Small Business Services Program in 2008 is certainly consistent with that requirement. Therefore, the Company respectfully requests that it be allowed to increase spending for this program beyond the amount originally budgeted for 2008.

B. Details on Company Proposal

The Attorney General asserts that the Company's proposal lacks detail on incremental spending by program cost categories. The Company notes that it has provided the Department with detailed updated program budgets in its August 15

proposal. These detailed budgets can be compared directly to the budgets provided in Table 3 in the Company's Energy Efficiency Plan that was filed in March. The increases by cost type are provided as Attachment A.

The projected energy, demand, and non-electric benefits expected to be saved with the increased budgets were provided by the Company in Appendix A, page 5 of the August 15 filing. The incremental additional savings expected from proposed efforts are provided in the following table:

Incremental Additional Savings Due to Increased Spending In 2008

| Program | Lifetime MWh Savings | Lifetime Summer Demand Savings (kW-Years) | Value of Non- electric Benefits (\$000) | Total Net Benefits (\$000) |
|---------------------------------------|----------------------------|---|---|----------------------------------|
| A03a Residential Retrofit 1-4 | 10,066 | 5,616 | \$2,626 | \$2,732 |
| A03b Residential Retrofit Multifamily | 11,479 | 728 | \$290 | \$721 |
| B03a Low-Income Retrofit 1-4 | 12,775 | 1,432 | \$4,361 | \$4,511 |
| C03b Small C&I Retrofit | 31,939 | 7,640 | \$399 | \$3,865 |
| Total | 66,258 | 15,416 | \$7,676 | \$11,829 |

The Company's proposed increased spending levels reflect limitations in contractor infrastructure that will affect the number of energy efficiency project completions that might be finished in 2008. As accurately noted in the comments of the Low Income Weatherization and Fuel Assistance Program Network (the "Network"), there needs to be sufficient lead time to train new contractors to perform the additional work resulting from increased funding (Network Comments at 2).

Information on the number of customers that will be served by the National Grid's proposed increase in electric energy efficiency spending is provided in Attachment

B to these reply comments. The dollar savings that customers are projected to experience each month is provided as Attachment C.

C. Source of Increased Funding for Electric Energy Efficiency Programs

With respect to the comments regarding the source of increased funding, some commentators have stated that the increased funding for electric energy efficiency programs should not come from implementation of new tariffs but from the Forward Capacity Market (“FCM”) and from the Regional Greenhouse Gas Initiative (“RGGI”) pursuant to the newly enacted Green Communities Act (also the “Act”) (Attorney General Comments at 13-14; AIM Comments at 2; Wal-Mart Comments at 2-4). In addition, AIM has argued that any additional funding should be “borrowed” from the 2009 budgets and not be charged to C&I customers (AIM Comments at 2-3).

National Grid, in its proposal for increased electric energy efficiency funding, indicated that the Company proposes to recover overspending for 2008 in 2009. The Company made this proposal in order to accommodate the Department’s and DOER’s need to ensure that additional energy efficiency measures were in place for the 2008 winter as expeditiously as possible. The Company is merely increasing spending for 2008 and its proposal does not conflict with the mandates of the Green Communities Act. The funding streams established pursuant to § 11 of that recently enacted legislation not only preserve the 2.5 mils systems benefit charge, but include funds generated by the FCM, a percentage of proceeds of RGGI auctions, and *other funding as approved by the Department*. The increased funding as proposed by the Company is subject to approval by the Department. Accordingly, the Company’s proposal neither conflicts with or raises concerns under the Act.

D. Level of Review of Proposals

As noted above, the Company indicated in its August 15 filing that it proposes to recover overspending for 2008 in 2009. While the Company is not proposing a specific recovery mechanism at this time, both the Attorney General and Wal-Mart argue that a tariff or other type of recovery mechanism would require a general rate proceeding pursuant to G.L. c. 164, § 94 (Attorney General Comments at 4, 13-14; Wal-Mart Comments at 2-3).

To the contrary, the Department has a well-established policy allowing both local electric and gas distribution companies to recover charges for energy efficiency outside of base rate proceedings as part of their demand side management programs. See e.g., D.T.E. 97-112, at 9-10, 33-34 (1999); D.P.U. 94-4-CC, at 40-44, 48-51 (1994). The assertion that a base rate proceeding is required for the Department to implement recovery of energy efficiency expenditures is unsupported by Massachusetts law and Department practice and precedent.

E. Other Comments

ENE stated that the Company's increase for low-income customers seemed small at less than twenty percent (ENE Comments at 5). However, the Company's low-income energy efficiency programs, even without the proposed increase, were funded above the minimum required by law when the Company filed its energy efficiency plan in March. That minimum level of funding was governed by the G.L.c25, §19 as being at least 0.25 mills per kWh. The Company projects that this minimum amount of funding is approximately \$5.6 million in 2008. With the proposed increase in funding, the Company is recommending a funding level of more than \$11 million in 2008 for low

income energy efficiency efforts, well above the minimum amount of funding required. The increase proposed by the Company is not low and should be approved to aid those customers who critically need assistance for the upcoming winter.

While AIM has indicated that it questions the need to increase spending at this time (AIM Comments at 2), the Company is responding appropriately to those concerns and directives of the Department to address concerns of high energy costs for the 2008 winter. Alternatively, AIM asserts that if the Department finds that additional monies and/or programs are needed, then the Department should not allow any additional administrative costs and the additional funding should come only from residential customers (AIM Comments at 3). The Company disagrees. In order to expand spending for programs, additional costs would be incurred including administrative costs. All programs for which the Company has proposed to increase spending have been previously found to be cost-effective. While administrative costs necessarily would increase with additional spending, the Company intends to minimize such incremental costs. National Grid's proposal includes cost effective programs that would enhance the Department and DOER's goals to address high energy costs for this winter. National Grid disagrees with AIM's request that additional funding come only from residential customers. The Department should not change its long-term precedent that funding of energy efficiency is borne by all customers in recognition that all customers benefit from energy efficiency program efforts.

III. Conclusion

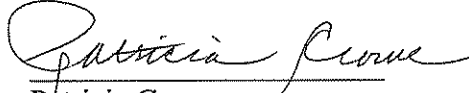
National Grid in its response to the Department's directive has submitted a proposal that would increase spending on specific cost-effective programs for the

upcoming winter. In its initial filing supplemented with information in this reply, the Company has provided the Department with information to allow thorough review and approval of its proposal. The Company thanks the Department for the opportunity to submit these comments and supports both the Department and DOER's efforts to address the potential for very high heating bills in the coming months.

Respectfully submitted,

National Grid
By its attorney,

Dated: 9-5-08


Patricia Crowe
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Waltham, MA 02451
781-907-1848

Increases by Cost Category

| Sector | Category | Program | A001 - Program Planning & Administration | A002 - Marketing | A003 - Customer Incentive | A004 - Sales, Tech Assist & Training | A005 - Evaluation & Market Research | A007 - Performance Incentive | Grand Total |
|-----------------|------------------------------------|---------------------------------------|--|------------------|---------------------------|--------------------------------------|-------------------------------------|------------------------------|-------------|
| A - Residential | 02 - Lost Opportunity | A02a Energy Star Homes | \$0 | \$0 | \$0 | \$0 | \$0 | \$3,559 | \$3,559 |
| | | A02b Energy Star HVAC | \$0 | \$0 | \$0 | \$0 | \$0 | \$900 | \$900 |
| | 02 - Lost Opportunity Total | | \$0 | \$0 | \$0 | \$0 | \$0 | \$4,459 | \$4,459 |
| | 03 - Retrofit | A03a Residential Conservation Service | \$400,000 | \$0 | \$1,100,000 | \$0 | \$0 | \$53,428 | \$1,553,428 |
| | | A03b Energywise | \$0 | \$0 | \$500,000 | \$0 | \$0 | \$15,692 | \$515,692 |
| | 03 - Retrofit Total | | \$400,000 | \$0 | \$1,600,000 | \$0 | \$0 | \$69,121 | \$2,069,121 |
| A- Residential | 04 - Products & Services | A04a Energy Star Lighting | \$0 | \$0 | \$0 | \$0 | \$0 | \$26,121 | \$26,121 |
| | | A04b Energy Star Products | \$0 | \$0 | \$0 | \$0 | \$0 | \$268 | \$268 |
| | 04 - Products & Services Total | | \$0 | \$0 | \$0 | \$0 | \$0 | \$26,389 | \$26,389 |
| | 05 - Information & Education | A05a Residential Education Program | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | 05 - Information & Education Total | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

| Sector | Category | Program | A001-Program Planning & Administration | A002- Marketing | A003- Customer Incentive | A004-Sales, Tech Assist & Training | A005- Evaluation & Market Research | A007- Performance Incentive | Grand Total |
|-------------------------|-----------------------------------|--|--|--------------------|--------------------------------|--|---|-----------------------------------|----------------|
| B - Low Income | 02 - Lost Opportunity | B02a Energy Star Homes LI | \$0 | \$0 | \$0 | \$0 | \$0 | (\$765) | (\$765) |
| | 02 - Lost Opportunity Total | | \$0 | \$0 | \$0 | \$0 | \$0 | (\$765) | (\$765) |
| | 03 - Retrofit | B03a Single Family - Appliance Management | \$0 | \$0 | \$1,000,000 | \$0 | \$0 | \$57,869 | \$1,057,869 |
| | | B03b Multifamily LI EnergyWise | \$0 | \$0 | \$0 | \$0 | \$0 | (\$7,092) | (\$7,092) |
| | 03 - Retrofit Total | | \$0 | \$0 | \$1,000,000 | \$0 | \$0 | \$50,777 | \$1,050,777 |
| | 07 - General Support | B07a LEAN Funding | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | B07x Performance Incentive Tax Liability | \$0 | \$0 | \$0 | \$0 | \$0 | \$32,279 | \$32,279 |
| | 07 - General Support Total | | \$0 | \$0 | \$0 | \$0 | \$0 | \$32,279 | \$32,279 |
| B - Low Income Total | | | \$0 | \$0 | \$1,000,000 | \$0 | \$0 | \$82,291 | \$1,082,291 |

| Sector | Category | Program | A001 - Program Planning & Administration | A002 - Marketing | A003 - Customer Incentive | A004 - Sales, Tech Assist & Training | A005 - Evaluation & Market Research | A007 - Performance Incentive | Grand Total |
|-----------------------------|--------------------------------|---------------------------------------|--|------------------|---------------------------|--------------------------------------|-------------------------------------|------------------------------|-------------|
| C - Commercial & Industrial | 02 - Lost Opportunity | C02a Design 2000plus | \$0 | \$0 | \$0 | \$0 | \$0 | \$1,755 | \$1,755 |
| | 02 - Lost Opportunity Total | | \$0 | \$0 | \$0 | \$0 | \$0 | \$1,755 | \$1,755 |
| | 03 - Retrofit | C03a Energy Initiative | \$0 | \$0 | \$0 | \$0 | \$0 | \$2,532 | \$2,532 |
| | | C03b Small Customers under 200kW | \$0 | \$0 | \$1,000,000 | \$0 | \$0 | \$45,732 | \$1,045,732 |
| | | C06a Demand Response | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C06b Retro-Commissioning | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | 03 - Retrofit Total | | \$0 | \$0 | \$1,000,000 | \$0 | \$0 | \$48,264 | \$1,048,264 |
| | 04 - Products & Services | C04a Motors Initiative | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C04b Unitary HVAC Initiative | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C04e Energy Star Commercial Buildings | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C04h 80 Plus | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Commercial & Industrial | 04 - Products & Services Total | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

| Sector | Category | Program | A001 - Program Planning & Administration | A002 - Marketing | A003 - Customer Incentive | A004 - Sales, Tech Assist & Training | A005 - Evaluation & Market Research | A007 - Performance Incentive | Grand Total |
|-----------------------------------|------------------------------|--|--|------------------|---------------------------|--------------------------------------|-------------------------------------|------------------------------|-------------|
| | 05 - Information & Education | C05a Massachusetts Energy Code Support | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| C- Commercial & Industrial | | C05b Massachusetts Energy Efficiency Partnership | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C05c New Building Institute Guidelines | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C05d DesignLights | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C05e Compressed Air Challenge | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | 05 - Information & Education Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| C- Commercial & Industrial | 07 - General Support | C07a NUP Collaborative | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | 07-General Support | C07b DOER Support | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C07c Sponsorship & Subscriptions | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | C07d Misc. Market Research and Evaluation | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | 07 - General Support Total | | \$0 | \$0 | \$0 | \$0 | \$0 | \$32,283 | \$32,283 |
| C - Commercial & Industrial Total | | | \$0 | \$0 | \$1,000,000 | \$0 | \$0 | \$82,302 | \$1,082,302 |
| Grand Total | | | \$400,000 | \$0 | \$3,600,000 | \$0 | \$0 | \$329,083 | \$4,329,083 |

Attachment B

| BCR Activity | | | Participants | SUPPLEMENT 2008 Participants | Increase in Participation |
|--------------------------------------|---------------------------------------|---------|--------------|---------------------------------|------------------------------|
| Residential | A02a Residential Lost Opportunity | 574 | 574 | 574 | - |
| | A02b Residential HVAC | 2,578 | 2,578 | 2,578 | - |
| | A03a Residential Retrofit 1-4 | 5,500 | 5,500 | 6,930 | 1,430 |
| | A03b Residential Retrofit Multifamily | 5,120 | 5,120 | 5,951 | 831 |
| | A04a Residential Lighting | 261,158 | 261,158 | 261,158 | - |
| | A04b Residential Appliances | 3,000 | 3,000 | 3,000 | - |
| | Subtotal: Residential | 277,930 | 277,930 | 280,191 | 2,261 |
| | Low Income | | | | |
| | B02a Low-Income Lost Opportunity | 210 | 210 | 210 | - |
| | B03a Low-Income Retrofit 1-4 | 3,370 | 4,246 | 5,153 | 876 |
| B03b Low-Income Retrofit Multifamily | 5,153 | 5,153 | 5,153 | - | |
| Subtotal: Low Income | 8,733 | 9,609 | 876 | | |
| Com/Ind (1) | | | | | |
| C02a C&I Lost Opportunity | 502 | 502 | 502 | - | |
| C03a Large C&I Retrofit | 335 | 335 | 335 | - | |
| C03b Small C&I Retrofit | 780 | 939 | 159 | | |
| Subtotal: C&I | 1,617 | 1,776 | 159 | | |
| Grand Total | 288,280 | 291,576 | 3,296 | | |

Average Annual kWh Savings Per Year for a Typical Participant Programs With Proposed Supplemental Funding

| Program | Sector | Projected Average kWh Savings Per Year | Average Monthly Savings (kWh) | Regular Residential Rate R-1 kWh Charge | Average Reduction in Annual Billing | Average Reduction in Monthly Billing | Low Income Residential Rate R-2 kWh Charge | Average Reduction in Annual Billing | Average Reduction in Monthly Billing |
|---|---------------|--|-------------------------------------|--|--|--|---|--|--|
| Residential Conservation Service (RCS or MASS Save) | Residential | 690 | 58 | \$0.16020 | \$110.59 | \$9.22 | \$0.13811 | \$95.34 | \$7.94 |
| Low Income Single Family - Appliance Management Program | Low Income | 990 | 83 | \$0.16020 | \$158.63 | \$13.22 | \$0.13811 | \$136.76 | \$11.40 |
| EnergyWise (Multifamily) | Residential | 792 | 66 | \$0.16020 | \$126.81 | \$10.57 | \$0.13811 | \$109.32 | \$9.11 |

| Program | Sector | Projected Average kWh Savings Per Year | Average Monthly Savings (kWh) | Small C&I Rate G-1 kWh Charge | Average Reduction in Annual Billing | Average Reduction in Monthly Billing | General Service Demand Rate G-2 kWh Charge | Average Reduction in Annual Billing | Average Reduction in Monthly Billing |
|-------------------------|------------------|--|-------------------------------|-------------------------------|-------------------------------------|--------------------------------------|--|---|--------------------------------------|
| Small Business Services | C&I under 200 kW | 16,917 | 1,410 | \$0.17186 | \$2,907.30 | \$242.27 | NEMA SEMA WCMA | \$0.16678 \$2,821.36 \$2,952.13 \$2,775.69 | \$235.11 \$246.01 \$231.31 |

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

Massachusetts Electric Company and)
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D.P.U. 08-8

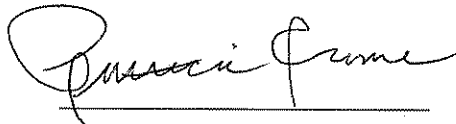
CERTIFICATE OF SERVICE

I hereby certify I have this day served National Grid's Reply Comments upon each person designated on the official service list compiled in this proceeding by e-mail and either hand delivery or US mail.

Dated at Waltham this 5th day of September, 2008.

NATIONAL GRID

By its attorney,



Patricia Crowe
201 Jones Road 5th Floor
Waltham, MA 02451
(781) 907-1848